

ISMAIL J. RAMSEY (CABN 189820)
United States Attorney

MARTHA BOERSCH (CABN 126569)
Chief, Criminal Division

DANIEL PASTOR (CABN 297948)
Assistant United States Attorney

450 Golden Gate Avenue, Box 36055
San Francisco, California 94102-3495
Telephone: (415) 436-7200
FAX: (415) 436-7234
daniel.pastor@usdoj.gov

Attorneys for United States of America

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

UNITED STATES OF AMERICA,
Plaintiff,
v.
HUNG QUONG DUONG,
Defendant.) CASE NO. 5:22-CR-144-EJD
) **UNITED STATES' SENTENCING**
) **MEMORANDUM**
) Date: June 3, 2024
) Time: 1:30 p.m.
) Judge: Hon. Edward J. Davila
)

I. INTRODUCTION

Defendant Hung Quong Duong pleaded guilty to Count 3 of the Indictment—Laundering Monetary Instruments—in violation of 18 U.S.C. § 1956(a)(3)(B) on January 22, 2024. PSR ¶ 2. Duong was a cryptocurrency exchanger for drug traffickers — a human ATM who converted drug traffickers’ crypto proceeds into cash for a 5% service fee. This service is valuable to drug traffickers who want to remain anonymous and to avoid the know your customer (KYC) information and ID requirements that are necessary to “cash out” cryptocurrency on a regulated crypto exchange like Coinbase or Kraken.¹

¹ See, e.g., “What is Know Your Customer?” <https://www.coinbase.com/learn/crypto-taxes/what-is-know-your-customer-kyc> (“The KYC process starts by asking customers to provide a range of basic information, which can include a user’s name, date of birth, and address (amongst other pertinent and Gov. Sentencing Memo

1 The FBI learned of Duong's money laundering business from a drug trafficker turned
 2 cooperating witness (CW) who used Duong's money laundering services. In April 2021, agents arrested
 3 the CW who admitted to selling methamphetamine and cocaine on multiple darknet marketplaces. PSR
 4 ¶ 6. According to the CW, Duong did this for drug traffickers throughout the Bay Area. PSR ¶ 9. After
 5 the CW had amassed significant amounts of Bitcoin by selling drugs on these marketplaces, the CW
 6 contacted Duong to exchange the Bitcoin into cash. PSR ¶ 8.

7 The FBI had the CW reconnect with Duong and conduct controlled money laundering
 8 transactions in which the CW represented that the Bitcoin Duong was exchanging into cash had been
 9 obtained from drug sales. PSR ¶ 10. On November 22, 2021, the CW sent roughly 0.3 Bitcoin to
 10 Duong's digital wallet. PSR ¶ 11. After receiving the Bitcoin, Duong messaged the CW on Signal with
 11 an image showing how much cash Duong would provide the CW minus Duong's 5% service fee as the
 12 exchanger: $0.29289 \text{ [Bitcoin to Duong]} \times 56,119.79 \text{ [Bitcoin rate]} \times .95 \text{ [5\% fee deducted]} =$
 13 \$15,614.80. PSR ¶ 11. On November 24, 2021, Duong and the CW met outside Duong's San Jose
 14 residence, and Duong gave the CW a bag with \$15,615 in cash. PSR ¶ 12.

15 To further the FBI's investigation into a drug conspiracy, the CW also asked Duong to get him a
 16 kilogram of methamphetamine. PSR ¶ 14. Duong agreed to do this and accepted \$6,000 in cash as
 17 advance payment for the meth on December 9, 2021. *Id.*

18 On December 16, 2021, Duong directed the CW to a San Jose parking lot where a courier
 19 delivered a drug package to the CW through the window of the CW's vehicle. PSR ¶ 15. Agents saw
 20 Duong's Silver Infiniti in the same parking lot at the time of this handoff. *Id.* When the package was
 21 opened, however, law enforcement realized that the courier had delivered a one-kilogram brick of
 22 cocaine—not the methamphetamine that the CW ordered. *Id.*

23 In messages with the CW, Duong acknowledge his mistake but told the CW that the CW would
 24 be responsible for paying for the cocaine. PSR ¶ 16. The FBI later arrested the drug courier and learned
 25 that Duong was a cryptocurrency exchanger for the drug group for which the courier worked.

26 \\

27 _____
 28 verifiable data), which is supplemented with government-issued documentation."').

1 **II. SENTENCING GUIDELINES CALCULATIONS**

2 As reflected in the PSR, the Sentencing Guidelines calculations are shown below:

- | | | |
|----------------|---|----|
| 3 a. | Base Offense Level, U.S.S.G. § 2S1.1(a)(1):
(defendant aided/abetted the distribution of 999 grams of cocaine) | 24 |
| 4 b. | Specific Offense Characteristic § 2S1.1(b)(2)(B)
(conviction under 18 U.S.C. § 1956) | +2 |
| 5 c. | Acceptance of Responsibility, § 3E1.1 | -3 |
| 6 d. | Zero-Point Offender, § 4C1.1 | -2 |
| 7 e. | Total Offense Level: | 21 |

8
9 PSR ¶¶ 51-60. The government agrees with the Probation Officer that the defendant falls into Criminal
10 History Category I. PSR ¶¶ 62-66. An Offense Level of 21 and a Criminal History Category I yields an
11 advisory guidelines range of 37 to 46 months. PSR ¶ 87.

12 **III. DISCUSSION**

13 The Court must impose a sentence sufficient, but not greater than necessary, to reflect the
14 seriousness of the offense, to promote respect for the law, and to provide just punishment; to afford
15 adequate deterrence; and to protect the public. 18 U.S.C. § 3553(a)(2); *United States v. Carty*, 520 F.3d
16 984, 991 (9th Cir. 2008). The Sentencing Guidelines are “the starting point and the initial benchmark.”
17 *Gall v. United States*, 552 U.S. 38, 49 (2007). Section 3553(a) sets forth the factors that Congress has
18 directed courts to consider in determining a sentence: (1) the nature and circumstances of the offense and the
19 defendant’s history and characteristics; (2) the purposes of sentencing; (3) the kinds of sentences available;
20 (4) the Guidelines range for sentences; (5) any pertinent policy statements; (6) the need to avoid unwarranted
21 sentencing disparities; and (7) the need to provide restitution to any victims. 18 U.S.C. § 3553(a); *Carty*, 520
22 F.3d at 991.

23 **A. The Offense Conduct**

24 **1. Drug Trafficker Arrested by the FBI Identifies Duong as a Cryptocurrency
25 Money Launderer for Drug Traffickers.**

26 In April 2021, the FBI arrested the CW for trafficking cocaine and meth on darknet
27 marketplaces. PSR ¶ 6. The CW proffered and agreed to cooperate with the government. PSR ¶ 7.

1 The CW told agents that when he amassed significant amounts of Bitcoin from drug sales on the
 2 darknet, he would contact an individual he knew as “A” or “Chino.” PSR ¶ 8. Based on their
 3 investigation, agents knew “Chino” or “A” to be defendant Hung Duong. *Id.* According to the CW,
 4 Duong maintained connections with drug traffickers throughout the Bay Area and converted
 5 cryptocurrency from darknet drug sales into cash for them in exchange for a 5% cut of the transactions.
 6 PSR ¶ 9.

7 **2. Duong Launders What He Believes is Drug Money for the CW.**

8 The FBI had the CW reconnect with Duong and conduct controlled money laundering
 9 transactions in which the CW represented that the Bitcoin Duong was exchanging into cash had been
 10 obtained from the sale of drugs. PSR ¶ 10. On November 22, 2021, the CW sent roughly 0.3 Bitcoin to
 11 Duong’s digital wallet. PSR ¶ 11. After receiving the Bitcoin, Duong messaged the CW on Signal with
 12 an image showing how much cash Duong would provide the CW minus Duong’s 5% service fee as the
 13 exchanger: $0.29289 \text{ [Bitcoin amount to Duong]} \times 56,119.79 \text{ [Bitcoin rate]} \times .95 \text{ [5\% fee deducted]} = \$15,614.80$. PSR ¶ 11. On November 24, 2021, Duong and the CW met outside Duong’s San Jose
 15 residence. PSR ¶ 12. Duong gave the CW a bag with \$15,615 in cash. *Id.*

16 **3. Duong Agrees to Source Drugs for the CW.**

17 During the November 24, 2021 meeting, the CW asked Duong if Duong could provide “crystal,”
 18 referring to crystal methamphetamine. *Id.* Duong agreed to see if he could source the drug for the CW.
 19 *Id.* On December 9, 2021, the CW gave Duong \$6,000 as advance payment for one kilogram of meth at
 20 a meeting outside Duong’s house. PSR ¶ 13.

21 **4. Duong Has a Courier Deliver a Kilogram of Drugs to the CW.**

22 On December 16, 2021, after several location changes made by Duong via messages, Duong
 23 directed the CW to a Coffee Lovers parking lot on Aborn Road and East Capitol Expressway in San
 24 Jose. PSR ¶ 15. Agents observed silver Infiniti they had previously seen Duong driving on multiple
 25 occasions doing laps in the parking lot. *Id.* After the CW parked his vehicle, a courier who drove an
 26 Alpha Romeo approached the CW’s vehicle on foot and deposited a black Lululemon bag into the CW’s
 27 car through the passenger window. *Id.* The courier then returned to the Alpha Romeo and departed. *Id.*

1 The Silver Infiniti also departed. *Id.* Inside the Lululemon bag, agents found a brick of suspected
 2 cocaine (not the meth the CW had ordered). The brick was tested at a DEA laboratory and confirmed to
 3 be cocaine weighing roughly 999 grams. *Id.*

4 Recorded conversations between Duong and the CW after the drug transaction on December 16,
 5 2021 confirmed that Duong had miscommunicated the type of drugs the CW ordered to the supplier.
 6 PSR ¶ 16. The recorded conversation further revealed that the 1 kilogram of cocaine delivered was
 7 going to cost the CW \$26,000. *Id.* The CW would owe Duong the difference—approximately \$20,000.
 8 *Id.* The CW told Duong that he would need to sell the cocaine before he could pay it off. PSR ¶ 16.

9 **HD:** So I'm really sorry, it was a misunderstanding. I thought it was pretty obvious when I
 10 said Christmas stuff but I guess that was already the word for fucking this. So, uh, that is
 11 all on me, my bad. So, uh um is this something you can work with or you need
 12 specifically the other thing? He has connections for the other thing. He just needs to call
 13 about it now.

14 **CW:** Yeah. No-no I-I can work with it. The only thing that uh for this amount of, uh, product it
 15 will take me probably a--a week, two weeks max to get all this out. But I can work with it
 16 if you can help me out I'll--I'll take care of you. Just uh give me some--buy me some
 17 time and then uh-uh I will make it happen.

18 On January 12, 2022, Duong and the CW met for lunch, and the CW gave Duong \$5,000 in cash
 19 that was purportedly from the CW's sales of the cocaine. PSR ¶ 17.

18 **5. Duong Launders More of What He Believes is Drug Money.**

19 In February 2022, at the direction of agents, the CW contacted Duong about converting more
 20 Bitcoin (purportedly from the CW's sales of the cocaine) into cash. PSR ¶ 18. In addition, the CW
 21 proposed utilizing a portion of the cash for Duong to get the CW a kilogram of methamphetamine which
 22 had not been delivered in December 2021. *Id.*

23 **CW:** I have some coin coming your way but I have to break it down how is going to play

24 **HD:** Explain

25 **CW:** First turn the coin into cash and from the 30k you keep your 5percent plus 10k from
 26 the white sales
 27 Get the laptop (6k) [methamphetamine] for my boy down south and the rest rest of
 28 the cash

1 The CW's proposal was for Duong to convert roughly \$30,000 of Bitcoin into cash for a 5% transaction
 2 fee. PSR ¶ 18. Duong would keep \$10,000 as partial repayment for the cocaine from December 2021,
 3 and Duong would keep \$6,000 as advance payment for meth that the CW wanted to buy for his "boy
 4 down south", which Duong was to provide later. PSR ¶ 18.

5 On February 17, 2022, the CW sent roughly 0.68894 Bitcoin to Duong's Bitcoin wallet. Duong
 6 then messaged the CW with a calculator image showing the formula for the proposed transaction. PSR
 7 ¶ 19. Later that day, Duong messaged the CW: "26307-6k-10307, right?" *Id.* Agents understood the
 8 message to confirm the CW's proposal. Duong would provide the CW \$26,307 in cash; minus \$6,000
 9 that the CW was paying Duong as an advance for a kilo of meth; minus \$10,000 the CW was repaying
 10 for the kilogram of cocaine received on December 16, 2021. *Id.*

11 On February 21, 2022, Duong and the CW met outside Duong's house. PSR ¶ 20. At the
 12 meeting, Duong gave the CW a bag containing roughly \$10,307 in cash as they had agreed. PSR ¶ 20.
 13 Duong's understanding was that the Bitcoin he had converted into the \$10,307 in cash had come from
 14 the CW's sale of the kilogram of cocaine, *i.e.*, "the white sales".

15 On April 7, 2022, agents executed a search warrant at Duong's San Jose home and arrested
 16 Duong. Agents also seized \$100,000 in cash from Duong's residence that Duong has agreed was the
 17 proceeds of unlawful activity and forfeitable to the government. PSR ¶ 21; Dkt. 36 at 4.

18 B. Relevant Conduct

19 1. **The FBI Arrests the Drug Courier Who Delivered the 999 Grams of Cocaine, 20 and the Courier Tells the FBI that Duong Laundered Money for the Drug Group for Which the Courier Worked.**

21 On August 12, 2022 (about five months later), the FBI arrested the drug courier who delivered
 22 the 999 grams of cocaine to the CW on December 16, 2021. PSR ¶ 27. Shortly after, the courier began
 23 cooperating with the FBI's investigation into a drug conspiracy, which operated in the San Francisco
 24 and Los Angeles areas and distributed counterfeit Adderall pills containing methamphetamine, cocaine,
 25 and illegally grown marijuana. PSR ¶ 28. According to the courier, the leaders of the drug organization
 26 were also involved in a large-scale Bitcoin-for-cash money laundering scheme. PSR ¶ 32.

27 The courier acknowledged that one of the drug group's members had instructed him on multiple
 28

1 occasions to pick up roller bags from various FedEx stores in the Bay Area that were filled with cash
 2 which the courier and agents believed was derived from drug sales. PSR ¶¶ 34-35.

3 **2. The FBI Raids a Residence and Stash House Belonging to the Drug Group.**

4 On August 12, 2022—when the courier who delivered the 999 grams of cocaine to the FBI was
 5 arrested)—the FBI also executed search warrants at a Twin Peaks residence (on Starview Way) and a
 6 South of Market Street stash house (on Norfolk Street) used by the drug group. PSR ¶¶ 27, 36.

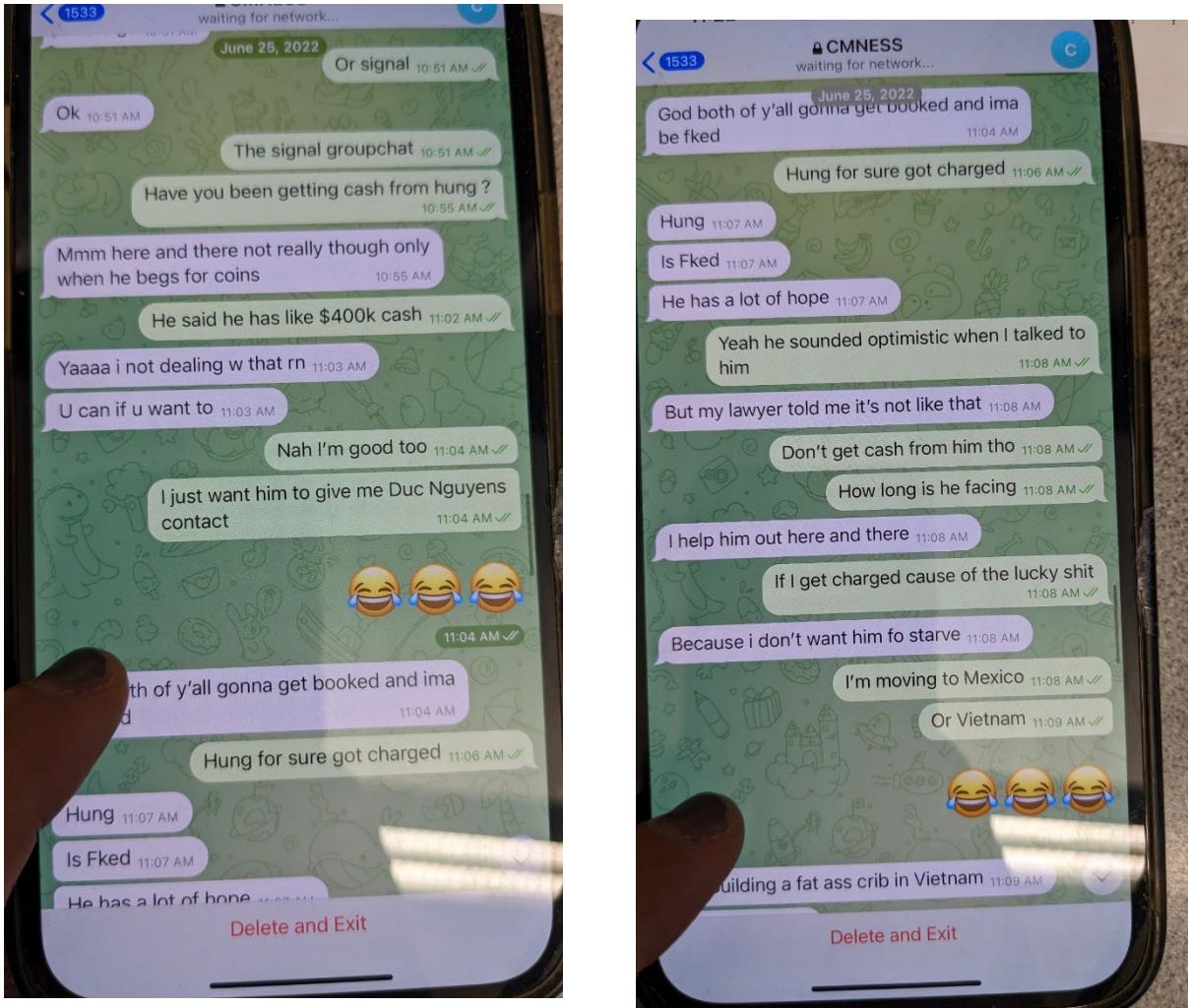
7 At the Starview Way residence, agents found firearms and ammunition, multiple large bags of
 8 marijuana, a small number of pills, and indicia showing the occupants of the residence. PSR ¶ 37. At
 9 the drug stash house on Norfolk Street, agents found: 15 bags of counterfeit Adderall (approximately
 10 15,000 orange pills)—which tested presumptively positive for the properties of methamphetamine and
 11 multiple bags containing marijuana. PSR ¶ 38. About a week later, one of the drug group’s leaders—
 12 John Khuu—was arrested by federal agents. PSR ¶ 40. Khuu was charged with conspiracy to commit
 13 money laundering and the illegal importation of controlled substances. *Id.*; *see also United States v.*
 14 *John Khuu*, 6:22-CR-62-JCB (N.D TX). Khuu pleaded guilty to conspiracy to commit laundering on
 15 March 26, 2024 and is pending sentencing. PSR ¶ 41; *see United States v. John Khuu*, 6:22-CR-62, Dkt.
 16 44-45 (N.D. TX).

17 **3. The FBI Seizes a Phone from a Member of the Drug Group with Messages
 18 Suggesting that Duong Continued to Launder Money Following His Federal
 Arrest.**

19 After John Khuu was arrested, the FBI searched a cell phone that was seized incident to Khuu’s
 20 arrest. PSR ¶ 43. On that phone, agents found messages between John Khuu and another co-conspirator
 21 dated June 25, 2022 in which they discussed defendant Hung Duong’s arrest (on April 7, 2022) and
 22 Duong’s federal prosecution. *Id.* John Khuu wrote to his co-conspirator: “Have you been getting cash
 23 from Hung?” PSR ¶ 44. The co-conspirator responded: “Mmm here and there not really though only
 24 when he begs for coins[.]” *Id.* Khuu then wrote: “He [Duong] said he has like \$400k cash”. *Id.*

25 Further into the conversation, Khuu wrote: “Hung for sure got charged”. PSR ¶ 45. The other
 26 drug conspirator replied: “Hung / Is Fked / He has a lot of hope” *Id.* Khuu wrote: “Yeah he sounded
 27 optimistic when I talked to him”. The other man wrote: “But my lawyer told me it’s not like that.” *Id.*

1 Khuu then warned his co-conspirator not to cash out any more with Duong: “Don’t get cash from
 2 him tho / How long is he facing”. PSR ¶ 46. Khuu’s co-conspirator responded: “I help him out here and
 3 there / Because I don’t want him to starve”. *Id.*



20 The messages shown above suggest that Duong continued to launder drug proceeds for the drug
 21 group after he had been charged with money laundering. These messages—as well as the broader
 22 pattern of conduct described throughout this memorandum—are inconsistent with the defendant’s
 23 statements to the Probation Officer that his crime was foolishly agreeing to set up a drug deal for the
 24 CW. *See* PSR ¶ 49.

25 C. Other 3553 Factors

26 The defendant is a 43-year-old man who is married and has one child. PSR ¶ 74. The
 27 defendant’s wife owns a nail salon in San Jose. *Id.* The defendant told U.S. Probation that since 2023

1 he has assisted with his wife's nail salon business. PSR ¶ 81. The defendant reported that he and his
2 wife enjoy substantial income of approximately \$10,000 to \$20,000 per month. *Id.* The defendant also
3 reported substantial assets and has retained counsel. PSR ¶¶ 83-84.

4 **IV. CONCLUSION**

5 To promote respect for the law, to provide just punishment, and to assure an adequate deterrent
6 to the laundering of darknet drug proceeds highlighted in this case, the government respectfully
7 recommends that the Court impose a sentence of 37 months in prison, 3 years of supervised release, and
8 the conditions recommended by U.S. Probation.

9
10 DATED: May 27, 2024

Respectfully submitted,

11 ISMAIL J. RAMSEY
12 United States Attorney

13 _____/s/_____
14 DANIEL PASTOR
15 Assistant United States Attorney